

Message Text

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70

ACTION EUR-25

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 AID-20 CEA-02 COME-00 EB-11 FRB-02 CIEP-02

STR-08 TRSE-00 LAB-06 SIL-01 OMB-01 DRC-01 /157 W

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R 081920Z JAN 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 6906

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L LONDON 00315

E.O. 11652: XGDS-1

TAGS: EGEN, EEC, UK

SUBJECT: EC REGIONAL POLICY: UK VIEWS

1. ON JANUARY 8, WE REVEIWED THE CURRENT STATE OF PLAY
ON EC REGIONAL POLICY WITH NEIL SMITH, ASSISTANT HEAD,
INTERNAL AFFAIRS SECTION, EUROPEAN INTEGRATION
DEPARTMENT, FCO.

2. SMITH SAID THAT NO FORMAL ANGLO-GERMAN CONTACTS
HAVE TAKEN PLACE ON THIS SUBJECT SINCE THE JANUARY 3
VISIT OF STATE SECRETARY APEL TO LONDON, AND NONE ARE
PLANNED BETWEEN NOW AND THE JANUARY 14-15 MEETING OF
THE EC COUNCIL. DURING THE APEL VISIT, THE BRITISH
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FOUND LITTLE GIVE IN THE GERMAN INSTISTENCE ON A SMALL

EC REGIONAL FUND. AS SMITH PUT IT, THE VIEWS OF FINANCE MINISTER SCHMIDT ARE STILL PREVAILING ON THIS ISSUE WITHIN THE GERMAN GOVERNMENT.

3. THE BRITISH AND THE GERMANS ARE NOW CONSIDERING HOW TO ESTABLISH A FUND WHICH WOULD BE SMALLER THAN THE ONE PROPOSED BY THE COMMISSION, BUT WHICH WOULD PROVIDE AN EQUIVALENT*NET RETURN TO THE UK (SEE LONDON 243). *HE BRITISH HAVE CONCOCTED A SCHEME WHICH WOULD INVOLVE THE ALLOCATION OF EC REGIONAL DEVELOPMENT FUNDS ONLY TO AREAS WHOSE LEVEL OF PROSPERITY (MEASURED IN TERMS OF GNP) IS MORE THAN TEN PER CENT BELOW THE*COMMUNITY AVERAGE. UNDER THIS SCHEME? THE BRITISH WO*L* RECE*VE ABOUT 33 PER CENT OF TYE EC FUND, IN CONTRAST ITH 25 PER CENT UND*R THE COMMISSION PROPOSAL. THE OVERAL**SIZE OF THE FUND COULD THUS BE REDUCED WHILE THE ABSOLUTE RETURN TO THE BRITISH REMAINED THE SAME.

4. THE GERMANS ARE WILLING TO CONSIDER THIS IDEA, ACCORDING TO SMITH, EVEN THOUGH IT INVOLVES VIRTUALLY NO RETURNS FOR THE FRG. SMITH DOUBTS THAT IT WILL*BE ACCEPTABLE TO FRANCE, HOWEVER. THE FRENCH WOULD GET ONLY 8 PER CENT OF THE EC REGIONAL FUND UNDER THIS NEW SCHEME, IN CONTRAST WITH ABOUT 20 PER CENT UNDER THE COMMISSION'S PROPOSAL. ACCORDING TO SMITH, THE GERMANS ARE GOING TO PROPOSE THIS SCHEME TO THE FRENCH MINISTER FOR REGIONAL DEVELOPMENT, WHO IS VISITING BONN THIS WEEK. THE BRITISH WILL PLAN THEIR NEXT MOVES IN THE LIGHT OF THE FRENCH REACTION.

5. SMITH POINTS OUT THAT FRANCE WOULD BREAK EVEN UNDER THE COMMISSION'S PROPOSALS, AND HE DOUBTS HMG IS PREPARED TO PUT PRESSURE ON FRANCE NOW TO BECOME A NET CONTRIBUTOR. THIS WOULD INVOLVE A MAJOR SHIFT IN THE BRITISH TACTIC OF NEUTRALIZING THE FRENCH ON THE ISSUE OF EC REGIONAL POLICY ON THE ASSUMPTION THAT THE GERMANS WOULD AGREE IN THE END TO PAY. SUCH A SHIFT IN TACTICS AT THIS STAGE COULD MERELY ADD FRENCH OPPOSITION TO THAT ALREADY COMING FROM BONN.

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6. A MORE LIKELY (IF LESS SATISFACTORY) SOLUTION, SMITH SAID IS TO FIND A COMPROMISE BETWEEN THE BRITISH FIGURE OF 3 BILLION UNITS OF ACCOUNT AND THE GERMAN ONE OF 600 MILLION. THE HANDS OF BOTH GOVERNMENTS ARE TIED BY DOMESTIC POLITICAL CONSIDERATIONS. AS SMITH POINTED OUT, HOWEVER, THE ACTUAL SUMS INVOLVED ARE DERISORY IN RELATION TO THE TOTAL SIZE OF THE GERMAN OR BRITISH ECONOMIES. BOTH SIDES APPEAR DETERMINED

TO REACH AGREEMENT AS SOON AS POSSIBLE SO THAT THE
COMMUNITY CAN GET ON WITH MORE IMPORTANT BUSINESS.

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